

# CERTIFICATION

January 3, 2011

I, Bruce R. Range, Director of Insurance of the State of Nebraska, do hereby  
certify that the attached is a full and correct copy of

Report of Examination of Financial Condition

**Woodmen of the World Life Insurance Society**

Omaha, Nebraska

as of

December 31, 2009

Now on file and forming a part of the records of this Department.

I hereto subscribe my name under the seal of my office at Lincoln, Nebraska.



*Bruce R. Range*  
DIRECTOR OF INSURANCE

**WOODMEN OF THE WORLD LIFE INSURANCE SOCIETY**

**also known as the**

**OMAHA WOODMEN LIFE INSURANCE SOCIETY**

**1700 Farnam Street**

**Omaha, Nebraska 68102**

**Report of Financial Condition**

**Examination as of**

**December 31, 2009**

**States Participating**

**Nebraska**

**STATE OF NEBRASKA  
DEPARTMENT OF INSURANCE**

**JAN 03 2011**

**FILED**

## **TABLE OF CONTENTS**

<b><u>Item</u></b>	<b><u>Page</u></b>
Salutation .....	1
Introduction.....	2
Scope of Examination.....	3
Description of Society:	
History .....	3
Management and Control:	
Holding Company System Registration.....	5
Transactions/Agreements with Affiliates.....	7
National Convention .....	8
Board of Directors .....	9
Officers .....	12
National Convention Committees.....	13
Committees of the Board .....	14
Standing Committees of the Society .....	15
Presidential Committees.....	16
Corporate Records.....	16
Territory and Plan of Operation .....	16
Reinsurance .....	18
Body of Report:	
Growth.....	23
Mortality Experience.....	23
Loss Experience .....	24
Product Mix .....	24
Financial Statements .....	25
Examination Changes in Financial Statements.....	29
Compliance With Previous Comments and Recommendations.....	29
Commentary on Current Examination Findings.....	30
Summary of Comments and Recommendations.....	30
Acknowledgment.....	31

Omaha, Nebraska  
December 23, 2010

Honorable Alfred W. Gross  
Chairman, Financial Condition (E) Committee, N.A.I.C.  
Commissioner of Insurance  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
Richmond, VA 23219

Honorable Mary Jo Hudson  
Secretary, Midwestern Zone, N.A.I.C.  
Director of Insurance  
Ohio Department of Insurance  
50 West Town Street, 3<sup>rd</sup> Floor, Suite 300  
Columbus, OH 43215

Honorable Bruce R. Ramage  
Director of Insurance  
Nebraska Department of Insurance  
Lincoln, NE 68508

Sirs and Madam:

Pursuant to your instructions and authorizations, and in accordance with statutory requirements, an Examination has been conducted of the financial condition and business affairs of the

**WOODMEN OF THE WORLD LIFE INSURANCE SOCIETY**  
also known as the  
**OMAHA WOODMEN LIFE INSURANCE SOCIETY**  
1700 Farnam Street  
Omaha, Nebraska 68102

and the findings of such examination are respectfully presented herein.

## **Introduction**

The Society was last examined as of December 31, 2005, under the Association Plan of Examination, with examiners from the states of Kentucky and Nebraska, representing the Southeastern and Midwestern Zones, N.A.I.C. respectively, participating. The current financial condition examination covered the intervening period to and including the close of business on December 31, 2009, and included such subsequent events and transactions as were considered pertinent to this review. Examiners from the state of Nebraska representing the Midwestern Zone, N.A.I.C., respectively, participated in this examination and assisted in the preparation of this report.

## **SCOPE OF EXAMINATION**

We conducted our examination pursuant to and in accordance with both the NAIC Financial Condition Examiners Handbook and Section 44-5904(1) of the Nebraska Insurance Statutes. The Handbook requires that we plan and perform the examination to evaluate the financial condition and identify prospective risks of the Society by obtaining information about the Society including corporate governance, identifying and assessing inherent risks within the Society and evaluating system controls and procedures used to mitigate those risks. The examination also included assessing the principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation, management's compliance with Statutory Accounting Principles and Annual Statement Instructions when applicable to domestic state regulations.

All accounts and activities of the Society were considered in accordance with the risk-focused examination process. This included a review of workpapers prepared by Ernst & Young LLP, the Society's auditors, during their audit of the Society's accounts for the years ended December 31, 2008 and 2009. Portions of the auditors' workpapers have been incorporated into the workpapers of the examiners and have been utilized in determining the scope and areas of emphasis in conducting the examination. This utilization was performed pursuant to Chapter 56, Section 013 – Rules of the Nebraska Department of Insurance.

## **DESCRIPTION OF SOCIETY**

### **History**

The Society was organized as a Fraternal Benefit Society on June 6, 1890, and commenced business immediately thereafter. It was subsequently incorporated under the laws of the State of

Nebraska on January 1, 1891, as the Sovereign Camp of the Woodmen of the World. The present corporate name of "Woodmen of the World Life Insurance Society and/or Omaha Woodmen Life Insurance Society" was adopted, in 1937, in order to satisfy the insurance department licensing provisions of a number of western states in which a similarly named fraternal benefit society had previously been licensed. Thus all official documents and certificate forms, which are filed in the states of California, Colorado, Idaho, Montana, Nevada, Oregon, Utah, Washington and Wyoming, bear the corporate name of "Omaha Woodmen Life Insurance Society." Article 3 of the Society's Articles of Incorporation, revised July 29, 2009, provides that: "This Society is a Fraternal Benefit Society, organized under the laws of the State of Nebraska, without capital stock, conducted solely for the benefit of its members and their beneficiaries, and not for profit. It shall be operated on a lodge system with ritualistic form of work and representative form of government. It shall have all the powers granted by law and shall have perpetual existence..."

It is the surviving corporation of five mergers, which took place within the 1962 through 2001 time frame. The five fraternal benefit societies absorbed by the Society through merger were as follows:

1. The United Order of Golden Cross, of Knoxville, Tennessee; effective January 1, 1962,
2. The Mutual Benefit Department of the Order of Railroad Telegraphers, of St. Louis, Missouri; effective July 1, 1964,
3. The Supreme Forest Woodmen Circle, of Omaha, Nebraska; effective January 1, 1965,
4. The New England Order of Protection, of Boston, Massachusetts; effective July 1, 1968, and
5. Neighbors of Woodcraft, of Oregon City, Oregon; effective July 1, 2001.

All of the above stated mergers were consummated in accordance with appropriate corporate procedures and under the auspices of proper regulatory authorities.

Effective October 2, 2001, the Society established WFS Holdings, Inc., a wholly owned for profit entity. WFS Holdings, Inc. in turn formed Woodmen Financial Services, Inc., a broker-dealer subsidiary, for the purpose of underwriting variable annuity and life products as well as selling non-proprietary mutual funds. At this same time, the Society approved the establishment of separate accounts for this purpose. On July 2, 2003, the Society formed two additional wholly owned subsidiaries. Woodmen Insurance Agency, Inc. is a general insurance agency and Woodmen Mortgage Services, Inc. is a mortgage banking entity. Effective December 31, 2005, the Society discontinued the operations of Woodman Mortgage Services, Inc.

The Society is authorized to transact the business of insurance as described by Chapter 44, Article 10 of the Statutes of Nebraska.

## **Management and Control**

### **Holding Company System Registration**

Effective August 1, 2001, the Board of Directors ratified the formation of a corporation to act as a subsidiary holding company. The Board authorized a capital contribution of \$50,000 to the holding company that in turn was contributed to its newly formed broker-dealer subsidiary for initial capitalization. The broker-dealer serves as the principal underwriter for variable insurance contracts issued by the Society. The Board gave authorization to negotiate and enter into such agreements as may be necessary or appropriate in order to carry out the broker-dealer's activities.



The Board also authorized the formation of other subsidiaries or entities as may be required to meet the needs of the Society.

On October 2, 2001, the Society formed WFS Holdings, Inc., a wholly owned subsidiary. Initial capital was provided through issuance of 10,000 shares of common stock of \$1.00 par value. The Society purchased this stock for \$60,000, comprised of \$10,000 in paid up capital and \$50,000 of contributed capital.

WFS Holdings, Inc. in turn formed Woodmen Financial Services, Inc., a broker-dealer. Woodmen Financial Services, Inc. was capitalized with the \$50,000 of contributed capital originally received by WFS Holdings, Inc. from the Society. Both of these newly formed entities are Nebraska for profit corporations.

On July 2, 2003, the Society formed two additional wholly owned subsidiaries, namely Woodmen Insurance Agency, Inc. and Woodmen Mortgage Services, Inc. The initial capital was provided through separate contributions of \$10,000 each from WFS Holdings, Inc. in exchange for 10,000 shares of common stock in each newly formed subsidiary. Effective December 31, 2005, the Society discontinued the operations of Woodmen Mortgage Services, Inc.

The Society's organization chart at December 31, 2009 was as follows (all entities are wholly owned by their respective parents and are indented to reflect the relationship):

Woodmen of the World Life Insurance Society and/or  
Omaha Woodmen Life Insurance Society  
    WFS Holdings, Inc.  
        Woodmen Financial Services, Inc.  
        Woodmen Insurance Agency, Inc.

### **Transactions/Agreements with Affiliates**

The Society filed capitalization and service agreements involving each subsidiary and the Society pursuant to the holding company act.

The capitalization agreement between the Society and WFS Holdings, Inc. committed sufficient capital to WFS Holdings, Inc. to finance its business operations and those of its operating subsidiaries. WFS Holdings, Inc. and each of its subsidiaries, Woodmen Financial Services, Inc., Woodmen Insurance Agency, Inc., and Woodmen Mortgage Services, Inc., entered into separate capitalization agreements outlining and referencing minimum capital transfers from the Society to WFS Holdings, Inc. and then to the subsidiaries. The Society contributed capital of \$1,510,000 in 2009; \$1,503,750 in 2008; \$1,090,000 in 2007; and \$1,760,000 in 2006 to WFS Holdings, Inc. under these agreements.

The service agreements with each subsidiary provide professional services, office services, and sales support for operations. Costs for these services and support under each agreement are invoiced on a monthly basis as set out in the allocation method attached to each agreement. The service agreements provide for termination upon default or failure to abide by its terms or either party may terminate at any time upon thirty days' prior written notice to the other party.

The allocated charges for these services were as follows:

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
WFS Holdings, Inc.	\$ 1,200	\$ 1,200	\$ 1,200	\$ 1,200
Woodmen Financial Services, Inc.	1,036,400	1,099,100	1,155,100	1,198,000
Woodmen Insurance Agency, Inc.	471,700	437,500	424,000	346,900
Woodmen Mortgage Services, Inc.	0	0	0	0

### **National Convention**

The supreme legislative and governing body of the Society is the National Convention. It shall have plenary, original and appellate jurisdiction in all matters pertaining to the Society and to its general welfare. It shall have the power to enact laws for its own government, the government and management of the Society in general, and its subordinate bodies and subsidiaries. It shall be the sole judge of its elections and the qualifications of its own officers and members. The National Convention may, by itself when in session, or through the Board of Directors when the National Convention is not in session, by two-thirds vote of either body, suspend or remove any of its officers or members for violating any of the laws of the Society or doing any other act or thing which tends to bring reproach upon the National Convention, the Society, or any of its officers or members, or for any other good and sufficient cause.

Representatives to the National Convention are composed of the Board of Directors, members of the Judiciary and Legislative Committees, Jurisdictional Presidents, Junior Past Presidents and Representatives from Jurisdictions, each entitled to one vote.

The officers of the National Convention are the same as comprise the Board of Directors of the Society. All such officers are elected by ballot at the regular session of the National Convention, for a term of four years or until their successors are elected and qualified.

Regular sessions of the National Convention are held every four years, in the odd numbered years beginning in 1965, at such time and place as may be selected by the President of the Society. Special sessions may be called by the President at any time and place, when authorized by two-thirds of the entire Board of Directors. A majority of the representatives entitled to sit in any session of the National Convention shall constitute a quorum. A simple majority of those present

and voting shall be sufficient to decide all motions and other issues rightly before it, except as otherwise provided in the Constitution and Laws.

The last regular session of the National Convention held during the period covered by this Examination was July 26 through July 29, 2009.

### **Board of Directors**

Article 2, Section 1 of the Constitution and Laws of the Society provides that the Board of Directors shall be composed of the Chairman, President and CEO; Executive Vice President Fraternal; Executive Vice President, Operations and Secretary; Executive Vice President, Finance and Treasurer; and ten additional members, at least eight of whom shall be outside and independent Directors and shall not be current or retired Home Office or Field Associates of the Society.

All power and authority of the National Convention, when not in session, shall be vested in the Board of Directors, except as elsewhere provided in the Constitution and Laws. The Board may examine the transactions of its members at any time and shall receive such reports therefrom as are required of them in the Constitution and Laws. It shall have authority to act on behalf of the National Convention; provided, that any amendment to the Constitution and Laws so enacted by it shall be enacted by a two-thirds vote and shall not be in force and effect until approved by two-thirds of the members of the National Convention, at a special or regular session thereof, or by means of a referendum. The Board of Directors shall have the authority to approve mergers, divestitures, consolidations and acquisitions, subject to and in accordance with applicable laws, and pursuant thereto has the authority to execute and enter into merger, divestiture, consolidation or any form of acquisition agreements, articles of merger, divestiture or consolidation, certificates of assumption, representations and warranties, as well as any other documents necessary to effectuate a

merger, divestiture, consolidation or any acquisition. The Board of Directors shall have the further authority, subject to and in accordance with applicable laws and any required regulatory approval, to borrow money and issue financial instruments in connection therewith, including without limitation promissory notes, surplus notes, or such other instruments of indebtedness as approved by the Board of Directors, and pursuant thereto, to enter into, execute and deliver such financing agreements and instruments for such purposes as the Board of Directors deems necessary and appropriate, including without limitation, financing to effectuate mergers, divestitures, consolidations or acquisitions. It shall also have authority to make rules and regulations for the orderly operation of Lodges and Jurisdictions, which shall include changes in the By-Laws and Rules of Order of subordinate units of the Society, provided such changes do not conflict with the Constitution and Laws.

Article 2, Section 2(d) allows that: "In the event any state, or other taxing authority, shall place any levy, tax or other charge upon any benefit certificate of membership issued by the Society and/or on any payments made by members, the Board of Directors and/or the National Convention is hereby authorized to add such amount thereof, or any part thereof, to the payments otherwise prescribed by the Society for any such certificates subject thereto, and the Board of Directors and/or the National Convention may direct that the amount of such levy, tax or charge shall be a lien on the proceeds of any such certificates, or if a refund is made it may be deducted therefrom, in both cases with interest thereon at the rate of five per centum per annum, compounded annually."

The Constitution and Laws also provide that the Board of Directors shall hold regular meetings at least semi-annually on such dates and at such places as they may determine. Those persons serving as members of the Society's Board of Directors at year-end 2009 were as follows:

**Name and Residence****Principal Occupation**

Danny E. Cummins  
Omaha, Nebraska

President & Chief Executive Officer  
of the Society

Mark Leonard Schreier  
Omaha, Nebraska

Executive Vice President, Finance  
and Treasurer of the Society

James W. Bridges, Jr.  
Omaha, Nebraska

Retired Executive Vice President, Fraternal  
of the Society

Mark D. Theisen  
Omaha, Nebraska

Executive Vice President, Fraternal  
of the Society

James W. Bosler III  
Louisville, Kentucky

Physician

Larry Ray King  
Omaha, Nebraska

Executive Vice President, Field  
of the Society

Thomas T. Gallion, III  
Montgomery, Alabama

Attorney

Pamela Alfrey Hernandez  
Omaha, Nebraska

Executive Vice President, Operations and  
Secretary of the Society

Stephen W. Mellor  
Omaha, Nebraska

Retired Executive Vice President, Finance  
and Treasurer of the Society

William C. Owen  
Tallahassee, Florida

Attorney

Daniel W. Rice, III  
Kinston, North Carolina

Director of Community Service at the North  
Carolina Department of Health and  
Human Services

Lucia G. Taylor-McCoy  
Elkview, West Virginia

Retired

Roger B. Moore  
Lynchburg, Virginia

Assistant Regional Traffic Engineer for the  
Virginia Department of Transportation

**Name and Residence****Principal Occupation**

James W. Shaver  
Landis, North Carolina

Optometrist

Michael C. Shealy  
Lexington, SC

President and co-owner of Carroll's Electric  
Service and Operator of CarrMike Builders

The Nebraska Holding Company System Act requires not less than one-third of the directors of a domestic insurer to be persons who are not officers or employees of such insurer or of any entity controlling, controlled by, or under common control with such insurer. As of December 31, 2009, eight of the fifteen directors were considered outside directors.

**Officers**

Article 3, Section 1 of the Constitution and Laws provides that: "The officers of the National Convention shall be the same persons as comprise the Board of Directors of the Society." Section 2 thereof allows that: "The President shall be the Chief Executive Officer (CEO) of the Society and shall report to the Board of Directors. The additional Executive Officers shall be the Executive Vice President/Fraternal, the Executive Vice President/Operations and Secretary, and the Executive Vice President/Finance and Treasurer. The Executive Vice Presidents shall report to the President; should a vacancy occur, the President shall appoint the Executive Vice President, subject to ratification by and approval of the Board of Directors; and, the President shall recommend the Executive Vice Presidents, as part of the nominating process at each National Convention." The President shall be the Chief Executive Officer of the Society and shall have general supervision over the affairs of the Society. Those persons duly elected and serving the Society as Officers at the 2009 year-end were as follows:

**Name**

Danny E. Cummins  
Mark D. Theisen  
Pamela A. Hernandez  
Mark L. Schreier  
Larry R. King  
Patrick L. Dees  
Elvis O. Anderson  
James R. Day  
James M. Gleason  
Steven O. Haack  
Karla J. Gochenour  
Joseph J. Hromadka, Jr.  
Annette M. Devine  
Randall D. Horrocks  
Steven B. Jones  
Robert T. Maher  
Curtis L. Beeson  
Randall P. Rotschafer  
Denise M. McCauley  
Colleen M. Maciejewski

**Office**

President and Chief Executive Officer  
Executive Vice President, Fraternal  
Executive Vice President, Operations and Secretary  
Executive Vice President, Finance and Treasurer  
Executive Vice President, Field  
Senior Vice President, Field  
Vice President, Field  
Vice President, Customer Relations  
Vice President, General Counsel  
Vice President, Marketing and Public Relations  
Vice President, Human Resources  
Vice President, Administrative Services  
Vice President, Accounting Services  
Vice President, Sales  
Vice President, Internal Controls Officer  
Vice President, Investment  
Vice President, Business Technology  
Vice President, Actuary  
Vice President, Core Operations  
Vice President, Enterprise Project Management  
Office

**National Convention Committees**

Article 1, Section 6(a), of the Society's Constitution and Laws provides for the creation of standing committees consisting of members appointed by the President on the last day of each regular session of the National Convention. This Article also states that the term of office of all standing committees shall be until the adjournment of the next regular National Convention. Standing committees provided for by this Article are currently the Committee on Legislation and the Judiciary Committee. Additional standing committees may be appointed by the President from among the adult members of the Society and/or the then members of the National Convention to assist the National Convention in the transaction of its business.



The Committee on Legislation is comprised of fifteen members of the National Convention. The Society's General Counsel is an Ex-Officio member of this committee. This committee is charged with considering all proposals for amending the Constitution and Laws submitted to it from any of the Jurisdictional Conventions and/or officers of the National Convention.

The Judiciary Committee is comprised of not fewer than five nor more than seven members of the National Convention. No person can serve for more than two consecutive terms.

Special committees of the National Convention may be appointed by the President from among the members of the National Convention to serve during that session only.

### **Committees of the Board**

Article 2, Board of Directors, Section 4, Rule Making Powers, Standing and Special Committees, of the Constitution and Laws of the Society states that: "The Chairman of the Board may appoint special committees of the Board and Chairs of such Committees with the approval of the Board to expedite work and matters before it for consideration. The three standing committees shall be the Audit, Compensation and Governance Committees. Members of the committees shall be appointed on an annual basis and comprised of no fewer than three nor greater than nine Board members who are not members of the Executive Committee and are not current or retired Home Office or Field Associates. Unless otherwise required by a two-thirds vote of the Board of Directors, the members of each standing committee and the Chairman thereof shall be selected and determined solely on the basis of seniority of services as a Board member. No person shall serve as Chairman of more than one standing committee."

### **Standing Committees of the Society**

Article 4 of the Constitution and Laws, Standing Committees of the Society, provides that the Executive Committee and Investment Committee, each composed of the executive officers, shall be standing committees of the Society.

The Executive Committee is charged with the supervision and control over the employment, duties, compensation and general welfare of all persons employed by the Home Office, but may delegate such duties as it deems advisable. The Executive Committee also has supervision and operational authority over the group benefits (which include the right to amend the plans) of all associates. Group Benefits include but are not limited to retirement, health, dental, disability and life. Notwithstanding such supervision, no substantive changes in the defined benefit or nonqualified supplemental retirement plans shall be made by the Executive Committee without the approval of the Board. In addition, they shall have supervision and operational authority over all matters involving the Society not delegated to the President or to another officer or to a standing committee of the Society or to a National Convention Committee and not inconsistent with the powers of the Board of Directors.

The Investment Committee has full control over the invested funds of the Society. Such funds are to be invested in investments authorized by applicable law. The Committee has authority to take any action in respect to such investments as it deems necessary or prudent, and may delegate any such duties it deems advisable.

The President and Secretary of the Society respectively, shall be the Chairman and Secretary of the standing committees of the Society.

### **Presidential Committees**

The President may appoint committees to assist in the Society's management. Such committees are responsible to and under the direction of the President. Presidential committees existing at the date of this examination were as follows:

Anti-Money Laundering Implementation Committee  
Annuity Interest Rate Committee  
Communications Development Process Task Force  
Compliance Committee  
Corporate Contributions Committee  
Electronics Committee  
Enterprise Risk Management Committee  
Field Compensation Committee  
Fraternal Service Fund Committee  
Internet Portal Steering Committee  
Judiciary Committee  
Legislative Committee  
National Fraternal Committee  
Operational Planning Group  
Privacy Committee  
Promotional Items Committee  
Records Retention Committee  
Security Committee  
Strategic Planning Group

### **Corporate Records**

The Society's Articles of Incorporation and Constitution and Laws were revised at the Forty-Sixth Session of the National Convention held at Omaha, Nebraska, July 26 to July 29 of 2009. The revisions became effective July 29, 2009.

### **Territory and Plan of Operation**

As evidenced by either current or continuous Certificates of Authority, the Society is licensed to transact business as a fraternal benefit society in the District of Columbia and in all states of the United States.

Business is produced under the State Manager Plan. Composition of the Society's field production force at year-end 2009 was as follows:

<b><u>Classification</u></b>	<b><u>Number</u></b>
State Managers	30
Area Managers	122
Field Representatives:	
Full-time	699
Part-time	<u>305</u>
Total Field Force	1,156

State Managers and Area Managers are considered to be employees of the Society, while the Field Representatives are considered statutory employees. All contracts provide incentives to combine production with fraternal development for the mutual benefit of themselves and the Society. Over the last four years some of the State Manager Marketing Areas have been consolidated in efforts to reduce expenses and improve efficiency. Production requirements have been implemented for full time Field Representatives which have reduced the number of full time and have increased the number of part time representatives. Production and recruiting requirements have also been implemented for Area Managers resulting in a reduction in the number of Area Managers in recent years.

Each State Manager is responsible for the appointment, training and development of Area Managers who will recruit, train, and maintain an effective field force for the solicitation of applications and for the promotion of fraternal activity. They shall also organize and institute lodges and visit existing lodges in their territory for the purpose of working with the officers and members of such lodges to increase their membership and activity.

All solicitation contracts are direct with the Society. These contracts provide for commissions, service fees, bonuses and management fees on business produced. In addition, State

and Area Manager contracts provide for overwrite commissions on business produced by the field force under their management. Training allowance programs are provided for new representatives and Area Managers.

Home Office training programs augment the field training provided by Area Managers. All new full time Field Representatives are required to attend and satisfactorily complete a five-day training seminar at the Society's Home Office. Advanced courses are provided to further develop experienced Field Representatives and Area Managers. Annual State Managers' meetings provide orientation for new products and other information of concern to the field force.

### **Reinsurance**

The Society's current plan of operation provides for the cession of reinsurance only. All reinsurance contracts in use were reviewed and found to contain the usual provisions relating to insolvency and termination. On January 1, 2004, the Society converted their reinsurance administration from a home grown system on its legacy administration system to the TAI reinsurance system. All self-administered business was converted at that time. Billing on YRT business changed from a calendar year basis to annually on the anniversary of the certificate. MRT business is billed monthly. A summary of these reinsurance facilities follows:

### **Ceded– Individual Life MRT & YRT**

Currently, reinsurance on all life plans of insurance is covered under the self-administered Monthly Renewable Term (MRT) excess agreement effective January 1, 2006. Under this agreement, three authorized reinsurers receive a specific percentage of the reinsured risk. Submissions must be new direct agency standard and substandard individual issues of life insurance

policies in excess of the Society's regular retention (not to include brokerage business or reinsurance assumed). All such cessions are made on the risk premium basis for the net amount at risk.

Reinsurance on most permanent plans of insurance written prior to 2006 is covered under a self-administered yearly renewable term (YRT) excess agreement effective March 1, 1995 and most recently amended effective March 1, 2001. Under this agreement, three authorized reinsurers receive a specific percentage of the reinsured risk.

A portion of the Society's reinsurance risk on cost of living increases continues to be self-administered with four authorized reinsurers. This risk is shared equally with the participating reinsurers.

The Society's current individual life retention limits, for both standard and substandard risks are as follow: \$400,000 for all members not employed by or representing the Society; \$200,000 for all members employed by or field representatives of the Society. The Society's current waiver of premium disability benefits retention limit is \$1,000,000.

Under the Society's current excess agreement, the overall sum in force and applied for on the same life with all insurance companies must not exceed \$5,000,000. (This limit was changed from \$3,000,000 effective January 1, 2006.) Limits and conditions for automatic reinsurance under the Society's current excess agreement are as follows:

1. Issue ages up to 85 years. (Changed from age 80 effective January 1, 2006.)
2. Standard and Substandard written in the U.S., up to and including Table 16 (500% total mortality) or corresponding flat extras.

The minimum cession is \$10,000.

### **Ceded – Individual Life Coinsurance**

A self-administered automatic coinsurance first dollar quota share agreement between two authorized reinsurers was effective between March 1, 2001 and September 1, 2005. This agreement provided coverage for the current Ten Year Term and Twenty Year Term products. Each reinsurer received a specific percentage of the reinsured risk. The Society's retention limit under this agreement was 50% of the face amount of the certificate up to a maximum retention of \$100,000 on any one member. This retention was in addition to the Society's published retention on other life plans of \$400,000 for non-employees or field representatives and \$200,000 for employees and field representatives. This agreement succeeded an agreement between two authorized reinsurers, which provided coverage for the Ten Year Level Term and Twenty Year Term products issued between March 1, 1999 and March 1, 2001.

Prior to March 1, 1999, self-administered automatic coinsurance agreements with four authorized reinsurers provided coverage for One Year Term and Ten Year Level Term products issued after April 1, 1991. These agreements were amended to provide reinsurance coverage on new One Year Term, Five Year Term, Ten Year Term and Fifteen Year Term products issued after January 1, 1997. The Society's retention limits under these agreements were the same as those set out above under the self-administered YRT agreements. The automatic limit for cessions under these agreements was \$1,500,000 issued or applied for in all companies. Facultative coverage was provided for in the agreements when applications did not meet the criteria for automatic cession. The liability of the reinsurers was split equally for automatic submissions and as agreed upon for facultative coverage. The liability of the reinsurers was considered several and not joint.

From September 1, 2005 through December 31, 2005 all award term products were reinsured under a MRT agreement with Generali USA Life. The retention was \$100,000 for this

agreement. If there was previous retention on an award term product, that amount was considered when applying the \$100,000 retention so that no more than the maximum of \$100,000 was retained across all award term products.

#### **Ceded - Accidental Death Benefits**

The Society has an automatic bulk Accidental Death Benefit reinsurance agreement in force with an authorized reinsurer dated August 1, 1984. This agreement includes coverage for all in force riders to life and hospital certificates as of the date of the agreement. The agreement was amended effective September 1, 1986, to include coverage issued in conjunction with the Society's Hospital Confinement Indemnity certificates. Effective January 1, 2002, it was amended to discontinue the accidental death coverage issued in conjunction with the Hospital Confinement Indemnity certificates.

The maximum issue limit hereunder is \$300,000, any one life, with a Society retention of \$50,000, and an automatic cession limit of \$250,000.

This agreement does not provide coverage for dismemberment and loss of sight benefits.

#### **Ceded – Individual and Group Disability Income**

As of December 31, 1997, the Society's disability income business was limited to three reinsurance contracts with three authorized reinsurers. Each agreement has been terminated as to new business, however one agreement does allow for new business limited to employee fluctuation within small employee groups.

Administration agreements for servicing the respective books of business are in place with two reinsurers. Services provided continue in the areas of: premium billing and collection; claims and policy change processing; preparation of accounting, actuarial and all other records necessary to



maintain the existing book of business. Administration fees are included as part of the premiums paid to or retained by the administrator and tied to persistency.

The Society receives a renewal allowance from all three reinsurers. One is based on the previous year loss ratio. Servicing expenses owed to the field representatives are the sole responsibility of the Society.

#### **Ceded - Long Term Care**

Beginning January 1, 2002, the Society entered into an automatic coinsurance first dollar quota share reinsurance agreement with one authorized reinsurer to cover its new Long Term Care product. The Society retains 50% of the risk up to a maximum daily benefit amount of \$300 as adjusted by an inflation rider. During 2007, this agreement was closed to new business to coincide with the Society discontinuing new sales of its Long Term Care product.

#### **Ceded - Group Life Insurance**

Beginning January 1, 2007, the Society entered into a reinsurance agreement with one authorized reinsurer to cover 100% of its group life exposure. Group life exposure arises because the Society self-insures all of its group life insurance coverage extended to home office employees, field associates, and retirees.

## **BODY OF REPORT**

### **Growth**

The following comparative data reflects the growth of the Society during the period covered by this examination:

	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Admitted Assets	\$8,074,593,384	\$7,582,356,814	\$7,647,374,215	\$7,465,154,497
Policy Reserves:				
Aggregate Life	5,954,159,215	5,624,600,543	5,416,222,040	5,377,871,891
Aggregate A & H	26,378,219	24,527,489	22,471,831	20,242,772
Total Liabilities	7,251,285,875	6,825,743,138	6,730,640,678	6,589,628,046
Special Reserves (Surplus)	823,307,509	756,613,676	916,733,537	875,526,451
Premium Income	800,299,322	822,122,707	516,822,657	537,851,725
Net Investment Income	403,273,503	412,156,962	423,815,895	424,159,015
Certificate Benefits	516,449,759	641,102,771	496,872,860	461,212,911
Refunds to Members	108,782,469	131,013,607	133,003,216	131,387,502
Net Income	7,990,758	(27,807,544)	125,984,027	76,816,425
Life Insurance In-force *	34,890,092	34,712,381	34,654,733	34,410,488

\* (...000 omitted)

Admitted Assets and Total Liabilities figures include Separate Accounts.

### **Mortality Experience**

Mortality experience on the Society's life business, as developed from filed Annual Statement figures for each year under review with the Actual Mortality being composed of Incurred Death Benefits less Reserves Released by Death, is presented in the following exhibit:

<b>Ordinary Life:</b>	<b><u>Tabular Cost</u></b>	<b><u>Actual Mortality</u></b>	<b><u>Savings</u></b>	<b><u>Ratio *</u></b>
2006	\$216,536,113	\$81,476,336	\$135,059,777	37.63%
2007	221,320,607	83,162,472	138,158,135	37.58
2008	226,324,228	89,137,684	137,186,544	39.38
2009	228,828,925	90,550,987	138,277,938	39.57

\* Ratio represents actual mortality to tabular cost

### **Loss Experience**

The Society's ratio of losses incurred to premiums earned for accident and health business, as developed from the filed Annual Statement, schedule H, figures for each year under review, is presented in the following exhibit:

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Non-cancelable	221.3%	183.3%	68.5%	123.3%
Guaranteed renewable	37.0	40.8	44.8	41.4
Non-renewable for stated reasons only	66.0	(10.5)	83.5	80.7
All lines combined	42.8%	44.5%	45.5%	43.4%

### **Product Mix**

The Society's product mix, determined from net premiums collected during the year 2009, is reflected in the following:

<b><u>Class of Business</u></b>	<b><u>Premiums Collected</u></b>	<b><u>Percent of Total</u></b>
Life Insurance	\$420,735,298	52.57%
Individual Annuities	370,556,342	46.30
Accident and Health	<u>9,007,681</u>	<u>1.13</u>
Totals	<u>\$800,299,321</u>	<u>100.00%</u>

### **Financial Statements**

The following statement of admitted assets and liabilities, together with the accompanying summary of operations, reflect the financial condition of the Society as of December 31, 2009, and its transactions during the year 2009, as determined through this examination. A reconciliation of the capital and surplus account for the period under review is also included.

**FINANCIAL STATEMENT****December 31, 2009****Assets**

	<b><u>Ledger Assets</u></b>	<b><u>Non Admitted Assets</u></b>	<b><u>Net Admitted Assets</u></b>
Bonds	\$5,612,459,059		\$5,612,459,059
Common stocks	375,200,708		375,200,708
Mortgage loans:			
First liens	1,304,436,843		1,304,436,843
Real estate:			
Occupied by the Society	21,052,867		21,052,867
Investment real estate	63,838,682	\$ 87,241	63,751,441
Held for sale	3,622,296		3,622,296
Cash and cash equivalents	244,178,855		244,178,855
Contract loans	169,880,352	1,373,412	168,506,940
Other invested assets	8,255,597		8,255,597
Receivable for securities	299,517		299,517
Owned call options	<u>931,412</u>	<u>                    </u>	<u>931,412</u>
Cash and invested assets	\$7,804,156,188	\$ 1,460,653	\$7,802,695,535
Investment income due and accrued	83,961,562	382,466	83,579,096
Uncollected premiums and agents balances in course of collection	64,494	52,777	11,717
Reinsurance:			
Amounts recoverable	887,504		887,504
Other amounts receivable	51,108		51,108
EDP equipment	2,000,738		2,000,738
Furniture and equipment	7,212,251	7,212,251	
Prepaid pension expenses	43,352,614	43,352,614	
Fieldworkers' balances	8,618,140	8,618,140	
Prepaid expenses	2,757,020	2,757,020	
Group claims paid – not yet allocated	905,118	905,118	
Lodge escrow	347,485	347,485	
Amounts due Society	243,484	243,484	
Other miscellaneous assets	<u>2,283,255</u>	<u>2,283,255</u>	<u>                    </u>
Total assets excluding Separate Accounts	\$7,956,840,961	\$67,615,263	\$7,889,225,698
From Separate Accounts statement	<u>185,367,686</u>	<u>                    </u>	<u>185,367,686</u>
Totals	<u>\$8,142,208,647</u>	<u>\$67,615,263</u>	<u>\$8,074,593,384</u>

**Liabilities, Surplus and Other Funds**

Aggregate reserve for life certificates and contracts	\$5,954,159,215
Aggregate reserve for accident and health contracts	26,378,219
Liability for deposit-type contracts	668,143,416
Contract claims:	
Life	26,058,868
Accident and health	802,444
Refunds apportioned for payment	107,870,000
Premiums and annuity considerations received in advance	1,812,046
Surrender values on cancelled certificates	195,299
Interest Maintenance Reserve	39,882,810
Commissions to fieldworkers' due or accrued	3,825,669
General expenses due or accrued	17,146,222
Transfers to Separate Accounts due or accrued	(1,836,484)
Taxes, licenses and fees due or accrued	3,280,572
Amounts withheld or retained as agent or trustee	3,302,478
Amounts held for fieldworkers' account	18,603
Remittances and items not allocated	12,375,170
Liability for benefits for employees and fieldworkers	12,456,711
Asset Valuation Reserve	98,159,516
Drafts outstanding	1,061,239
Payable for securities	18,589
Additional minimum pension liability	22,528,430
Post-retirement benefit liability	38,507,900
Written call option liability	50,195
Collateral deposit liability	(16,745)
Securities lending loss contingency	<u>29,737,807</u>
 Total liabilities excluding Separate Accounts business	 \$7,065,918,189
From Separate Accounts statement	<u>185,367,686</u>
 Total liabilities	 \$7,251,285,875
Surplus funds for fraternal activities and fluctuation of assets, mortality, interest and expenses	 <u>823,307,509</u>
 Total liabilities and surplus funds	 <u>\$8,074,593,384</u>

## SUMMARY OF OPERATIONS - 2009

Premiums and annuity considerations for life and accident and health contracts	\$ 800,299,322
Considerations for supplementary contracts with life contingencies	3,321,768
Net investment income	403,273,503
Amortization of Interest Maintenance Reserve	8,936,178
Commissions and expense allowances on reinsurance ceded	231,429
Income from fees from Separate Accounts	625,730
Fraternal service fund income	9,367,981
Other miscellaneous income	<u>(2,559)</u>
Total	<u>\$1,226,053,352</u>
Death benefits	\$ 158,140,513
Matured endowments	2,520,718
Annuity benefits	206,380,435
Disability benefits and benefits under accident and health contracts	9,342,616
Surrender benefits and withdrawals for life contracts	140,065,477
Interest and adjustments on contract or deposit-type contract funds	26,502,886
Payments on supplementary contracts with life contingencies	8,895,629
Increase in aggregate reserves for life and accident and health contracts	<u>330,752,116</u>
Subtotal	\$ 882,600,390
Commissions on premiums and annuity considerations and deposit type contract funds	41,605,662
General insurance expenses and fraternal expenses	144,789,075
Insurance taxes, licenses and fees	6,431,882
Increase in loading on deferred and uncollected premiums	(6,046)
Net transfers to or (from) Separate Accounts net of reinsurance	(1,580,563)
Other employee benefits	<u>517,100</u>
Total	<u>\$1,074,357,500</u>
Net gain from operations before refunds to members and before realized capital losses	\$ 151,695,852
Refunds to members	<u>108,782,469</u>
Net gain from operations after refunds to members	\$ 42,913,383
Net realized capital gains (losses)	<u>(34,922,625)</u>
Net income	<u>\$ 7,990,758</u>

### **CAPITAL AND SURPLUS ACCOUNT**

	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Special surplus funds, beginning of year	<u>\$753,472,816</u>	<u>\$875,526,451</u>	<u>\$ 916,733,537</u>	<u>\$756,613,676</u>
Net income from operations	\$ 76,816,425	\$125,984,027	\$ (27,807,544)	\$ 7,990,758
Change in net unrealized capital gains (losses)	25,480,224	(27,010,534)	(144,908,233)	75,618,024
Change in non-admitted assets	(114,245)	(43,642,721)	(6,446,861)	7,119,351
Change in reserve on account of change in valuation basis	8,369,304	(1,435,808)	(1,634,062)	708,470
Change in AVR	(7,307,542)	(21,905,947	73,848,312	(50,850,514)
Charge for national convention expense			(540,000)	
Other surplus charges				(3,995,302)
Additional minimum pension obligation	<u>18,809,469</u>	<u>9,218,069</u>	<u>(52,631,473)</u>	<u>30,103,043</u>
Net change for the year	<u>\$122,053,635</u>	<u>\$ 41,207,086</u>	<u>\$(160,119,861)</u>	<u>\$ 66,693,830</u>
Special surplus funds, end of year	<u>\$875,526,451</u>	<u>\$916,733,537</u>	<u>\$ 756,613,676</u>	<u>\$823,307,506</u>

### **Examination Changes in Financial Statements**

The Society's special surplus funds in the amount of \$823,307,506, as reported in its 2009 Annual Statement, have been accepted for purposes of this examination. Examination findings, in the aggregate, were considered to have an immaterial effect on the Society's financial condition.

### **Compliance with Previous Comments and Recommendations**

Recommendations appearing in the last previous report of examination are reflected below, together with remedial actions taken by the Society to comply therewith:



1. **Information Systems Access Controls** – The Society’s significant financial information systems had access control issues as of December 31, 2005. It was recommended that the Society complete its review of access control issues and makes necessary changes to eliminate unnecessary systems access in the future.

**Action:** The Society has complied.

2. **Investments** - The Society reported two preferred stock securities as long term bonds, which was not in accordance with SVO guidance. It was recommended that the Society reclassify these securities in accordance with SVO guidance.

**Action:** The Society has complied.

3. **Investments** – – It is recommended that the Society report all purchases and sales of securities on the trade date, or funding date for private placements, as required by the NAIC Accounting Practices and Procedures Manual, SSAP #26, paragraph 4, for bonds, SSAP #30, paragraph 5, for common stocks, SSAP #32, paragraph 10, for preferred stocks, and SSAP #43, paragraph 6, for loan-backed and structured securities.

**Action:** The Society has complied.

#### **Commentary on Current Examination Findings**

There were no comments or recommendations made as a result of this examination.

#### **Summary of Comments and Recommendations**

There were no comments or recommendations made as a result of this examination.

### ACKNOWLEDGEMENT

The courtesy and cooperation extended by the Officers and employees of the Society during the course of this examination is hereby acknowledged.

In addition to the undersigned, Kim Hurst, CFE, Nicole Zimmermann, CFE, Skyler Lawyer, CFE, Financial Examiners, Gary Evans, CFE, Information Systems Examiner, and Daniel E. Eckstein, ASA, CIE, Actuarial Examiner, all with the Nebraska Department of Insurance, participated in this examination and assisted in the preparation of this report.

Respectfully submitted,



Tadd K. Wegner, CFE  
Supervisory Examiner  
Nebraska Department of Insurance  
Representing Midwestern Zone, N.A.I.C.